

Message Text

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67

ACTION ARA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-03 H-02 INR-07 L-02

NSAE-00 NSC-05 PA-02 RSC-01 PRS-01 SP-02 SS-15

USIA-15 AID-05 COME-00 EB-07 FRB-01 TRSE-00 XMB-04

OPIC-06 CIEP-02 LAB-04 SIL-01 OMB-01 AGR-10 SWF-01

FEA-01 OES-05 /114 W

----- 044039

P R 121923Z DEC 74

FM AMEMBASSY BRIDGETOWN

TO SECSTATE WASHDC PRIORITY 8171

INFO AMEMBASSY GEORGETOWN

AMEMBASSY KINGSTON

AMEMBASSY PORT OF SPAIN

UNCLAS BRIDGETOWN 2143

E.O. 11652: N/A

TAGS: EGEN BB

SUBJ: EMERGENCY BUDGET GEARED TO PRESERVING CREDIT RATING

REF: A) BTN 0640; B) BTN 1984; C) BTN 2057

SUMMARY:

GOB EMERGENCY BUDGET APPEARS TO BE DESIGNED CHIEFLY TO AVOID RECURRENT DEFICIT BY INCREASING GOVERNMENT REVENUES AND THUS MAINTAINING GOB INTERNATIONAL REPUTATION AS RELIABLE AND SOLID BORROWER. MEASURES IN BUDGET ARE NOT UNREASONABLE ALTHOUGH COMPLEX SALES TAX IS LIKELY TO BE DIFFICULT OF ENFORCEMENT. EMERGENCY BUDGET PRESENTED AT TIME OF GROWING UNEMPLOYMENT WHICH PLACES GOB UNDER PRESSURE FOR SOLUTIONS. ECONOMIC PICTURE, WHILE DARKER THAN PREVIOUSLY, IS NOT YET AT CRISIS STAGE. EMERGENCY BUDGET UNLIKELY HAVE SIGNIFICANT EFFECT ON US TRADE/INVESTMENT END SUMMARY.

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1. BARBADOS' FIRST EMERGENCY BUDGET (REFTEL B) APPEARS TO BE

GEARED TO OVERCOMING CURRENT GOB DEFICITS AND MAINTAINING BARBADOS' INTERNATIONAL REPUTATION AS A RELIABLE AND SOLID BORROWER. IN APRIL, GOB SOUGHT TO FIGHT INFLATION AND SAFEGUARD INTERNATIONAL RESERVES WITH SERIES OF LOW-KEY MOVES DESIGNED TO ACCOMPLISH THESE OBJECTIVES WITHOUT GIVING CAUSE FOR CONCERN TO OVERSEAS CREDITORS OR POTENTIAL SOURCES OF FUNDS. MEASURES SET FORTH IN EMERGENCY BUDGET (SALES, CORPORATION, GAS, AND TRADE TAXES; QUARTERLY INCOME TAXES FOR SELF-EMPLOYED; ETC.) ARE LESS CONCERNED WITH INFLATIONARY IMPACT THAN WITH NEED TO BOOST GOVERNMENT REVENUES IN ORDER TO MAINTAIN CAREFULLY GUARDED OVERSEAS GOB IMAGE AS RESPONSIBLE BORROWER. GOB APPARENTLY IS CONSCIOUS OF FACT THAT ITS ACCESS TO FOREIGN CAPITAL IS PRIMARY MEANS BY WHICH IT CAN SERVE AS GROWTH CATALYST AND THAT ANY RECURRENT DEFICIT WOULD MAR ITS REPUTATION IN INTERNATIONAL FINANCIAL CIRCLES. (THERE IS IN FACT SOME DEBATE ABOUT WHETHER THERE WILL BE DEFICIT AT ALL). GOB EMERGENCY BUDGET SEEKS TO INCREASE REVENUE THROUGH A SERIES OF MEASURES THAT COULD NOT BE REGARDED AS EXTREME BY ANY OF TODAY'S STANDARDS. WHILE SOME OF THESE MEASURES MAY BE REGARDED BY SOME AS IMPRACTICAL, THEIR PURPOSE (IF SIGNIFICANT DEFICIT IS REAL DANGER) IS UNARGUABLE.

2. PERHAPS MEASURE WITH GREATEST IMMEDIATE IMPACT IS NEAR-DOUBLING OF GASOLINE TAX FROM US\$0.205 TO US\$0.405 PER GALLON, RAISING RETAIL PRICE FROM .80 TO 1.00. DESPITE LIKELY INFLATIONARY IMPACT, GASOLINE TAX INCREASE (WHICH IS NOT OUT OF LINE WITH OTHER NON-OIL PRODUCING CARIBBEAN AREAS) WILL REDUCE FUEL CONSUMPTION TO SOME DEGREE AND HOPEFULLY MAY EASE SOMEWHAT GOB'S STAGGERING FUEL IMPORT BILL. ADDITIONALLY, REVENUE FROM HIGHER TAX WILL SERVE TO FINANCE PUBLIC TRANSPORTATION AND CONTINUED SALES OF KEROSENE AND DIESEL FUEL TO FARMERS, FISHERMEN AND POORER CLASSES AT LOWER PRICES.

3. OPPOSITION CRITICISM OF EMERGENCY BUDGET HAS CENTERED CHIEFLY ON LIKELY INFLATIONARY IMPACT OF SALES/CORPORATION TAXES, INADEQUACY OF EFFORTS TO AID PENSIONERS AND ALLEGED GOB FAILURE TO SPUR LOCAL AGRICULTURAL PRODUCTION. SOME LOCAL JOURNALISTS HIT EMERGENCY MEASURES PACKAGE AS BEING TOO CONSERVATIVE AND NOT SUFFICIENTLY FAR-REACHING TO REDRESS CURRENT ECONOMIC SLUMP. BUT LOCAL MEDIA OFFERED NO SPECIFIC CORRECTIVE SUGGESTIONS. OPPOSITION WAS HARDLY MORE HELPFUL IN ITS CALL

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FOR GOB CONTROL OF PETROLEUM IMPORTING/PRODUCTION (A MEASURE THAT WOULD HARDLY REDUCE COSTS); INCREASED EMPHASIS ON AGRICULTURE THROUGH VAGUE SUBSIDY PROGRAMS AND ESTABLISHMENT OF NATIONAL HEALTH INSURANCE SYSTEM TO INTER ALIA PROVIDE FREE MEDICINE TO ALL.

4. PERHAPS MOST TELLING CRITICISM OF EMERGENCY BUDGET IS THAT DIRECTED AT 5 PERCENT SALES TAX WHICH, WITH COMPLICATED SET OF

EXEMPT ITEMS, WILL BE EXTREMELY DIFFICULT TO ENFORCE. SALES TAX WILL, IN FACT, SPAWN CONFUSION IN RETAIL SECTOR THAT COULD LEAD TO COURT CASES AND ESTABLISHMENT OF LEGAL LOOPHOLES. SOME AVER THAT AN ACROSS-BOARD 2 PERCENT SALES TAX WOULD BE AN EQUALLY EFFECTIVE REVENUE-RAISING MEASURE AND WOULD BE FAR EASIER TO PUT INTO OPERATION.

5. REACTION TO EMERGENCY BUDGET HAS BEEN MILD SINCE MOST PEOPLE EXPECTED MUCH TIGHTER MEASURES. IN FACT, AS NOTED ABOVE, A MAJOR CRITICISM OF PROGRAM IS THAT IT IS NOT SUFFICIENTLY HIGH-POWERED TO MAKE A SIGNIFICANT IMPACT. BANKERS WERE RELIEVED THAT GOB DID NOT CALL FOR CAPITALIZATION OF BRANCHES OF FOREIGN BANKS. LATTER MOVE WOULD REQUIRE INFLUX OF SOME US \$18 MILLION BY EIGHT FOREIGN BANKS TO CAPITALIZE LOCAL BRANCHES AND TO THUS OFFSET PRESENT OFFSHORE LIABILITIES.

6. PM OUTLINED FIVE MAJOR POINTS OF GOB 1975 ECONOMIC STRATEGY DURING EMERGENCY BUDGET SPEECH: (A) CONTROL OF EXPENDITURES, (B) INCREASED AGRICULTURAL PRODUCTION; (C) MORE PRODUCTIVE CAPITAL INVESTMENT; (D) PRICES/INCOME POLICY AND (E) IMPORT SUBSTITUTION. BY DOING SO, PM AT LEAST PAID LIP SERVICE TO AREAS OF GOB ECONOMIC ACTIVITY WHICH APRIL BUDGET AND 1973-77 DEVELOPMENT PLAN CONCERNED THEMSELVES. SINCE ESTABLISHMENT OF CENTRAL BANK A YEAR AGO, GOB HAS SOUGHT TO DIRECT INVESTMENT AWAY FROM LESS PRODUCTIVE AREAS (E.G. CONSUMER LOANS) TO JOB CREATING ACTIVITIES (E.G. FISHING) AND DEVELOPMENT PLAN PUSHES IMPORT SUBSTITUTION HEAVILY. NEVERTHELESS, EMERGENCY BUDGET CONTAINS NO PARTICULARLY NEW MEASURES TIED TO ABOVE "STRATEGIES." GOB HAS NOT CLARIFIED ITS CALL FOR INCOMES/PRICES POLICY WHICH MOST OBSERVERS INTERPRET AS SOME FORM OF PRICE/WAGE CONTROL. GOB PRICE CONTROL SYSTEM HAS EXISTED FOR SOME TIME AND IS A SOURCE OF MANY PROBLEMS FOR GOB, CONSUMER AND BUSINESS SECTOR. ORGANIZED LABOR HAS REACTED SHARPLY TO OPPOSE ANY FORM

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OF WAGE CONTROL IN FACE OF A RAMPANT INFLATION AND GOB WILL UNDOUBTEDLY FACE DIFFICULT TIME IN EFFECTING ANY WAGE CONTROLS AT THIS TIME.

7. IT IS NOTEWORTHY THAT PM DID NOT CHOOSE TO TAKE ANY RESTRICTIVE TRADE MEASURES AT THIS TIME. INSTEAD BARROW CITED RECENT IMF RESOLUTION OPPOSING SUCH RESTRICTIONS FOR BALANCE OF PAYMENT REASONS AND STRESSING DANGER OF WORLD WIDE TRADE SLUMP THAT WOULD GROW OUT OF WIDESPREAD RESTRICTIONS OF THAT SORT. EMERGENCY BUDGET MEASURES THUS WILL HAVE NO SIGNIFICANT EFFECT ON US TRADE OR INVESTMENT HERE. (MANY US OPERATIONS ON 10-YEAR TAX HOLIDAY WILL BE UNAFFECTED BY NEW CORPORATION TAX).

8. EMERGENCY BUDGET COMES AT TIME WHEN LOCAL ECONOMIC PICTURE CONTINUES TO DARKEN. RECENT DAQS HAVE SEEN SIGNIFICANT RISE IN

UNEMPLOYMENT WHICH HAS BEGUN TO PLACE PRESSURE ON GOB. ALTHOUGH NO UNEMPLOYMENT STATISTICS ARE AVAILABLE, IT IS LIKELY THAT RECENT LAYOFF IN CONSTRUCTION, AUTOMOBILE SALES/SERVICE AND EXPORT MANUFACTURING AREAS HAVE RAISED UNEMPLOYMENT CONSIDERABLY FROM GOB ESTIMATES THIS SUMMER OF 10-12 PERCENT. INTERNATIONAL RESERVES PICTURE IS NOT TOO BAD WHEN ONE CONSIDERS THAT OCTOBER-JANUARY IS TRADITIONALLY SLOW PERIOD WHEN ISLAND FINDS ITSELF BETWEEN SUGAR AND TOURISM SEASONS. THERE ARE SOME SIGNS THAT INFLATION MAY HAVE ABATED SOMEWHAT-RETAIL PRICE INDEX THROUGH OCTOBER IS UP 30 PERCENT OVER DECEMBER XQQUE AND, ALTHOUGH IT MAY GO OVER 40 PERCENT BY END OF YEAR, IT SEEMS LIKELY TO FALL SHORT OF 50 PERCENT RATE PREVIOUSLY FORECAST BY SOME OBSERVERS. IN SUM, ECONOMIC SITUATION IS CERTAINLY SERIOUS BUT NOT OF MAGNITUD

Message Attributes

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